

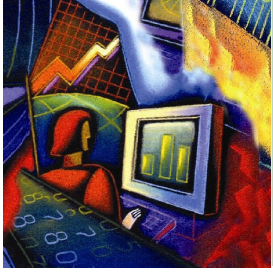
March 18, 2004

HR and Finance Baseline Assessment and Benchmark Project in Washington State

Kathy Rosmond
Susan Myette

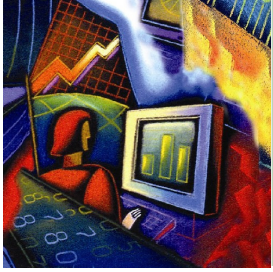
MERCER





Agenda

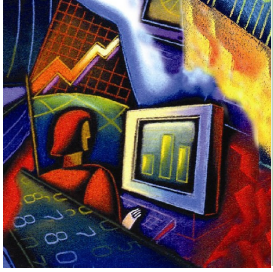
- Project Background
- Project Objectives
- Project Team
- Agency Participation
- Consulting Support
- Measurement Methods
- Highlights of Findings
- How the Findings are Being Used
- Critical Success Factors



Project Background

Washington State **Personnel System Reform Act of 2002** resulted in sweeping changes in state government:

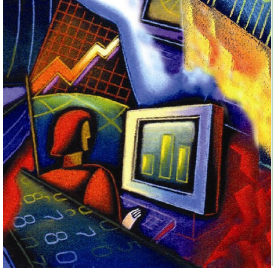
- **Civil Service Reform** - creates new civil service rules and processes for hiring, job classification and compensation, performance management, training, corrective/disciplinary action, reduction-in-force and more
- **Collective Bargaining** - allows state employees to bargain for wages, hours, and certain terms of employment
- **Competitive Contracting** - permits the state to contract out for “services traditionally and historically” provided by state employees



Project Background

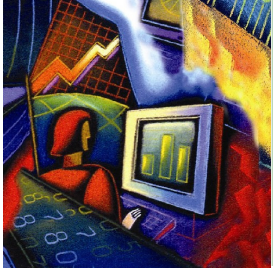
Sweeping changes, continued

- **New HRMS** - replaces the state's antiquated personnel/payroll system with a modern, flexible human resource management system
- **Baseline Assessment and Benchmark Project**
 - Phase 1 – Human Resources (July - December 2003)
 - **Phase 2 – Finance (January - June 2004)**
 - Phase 3 – Re-measure (2006 - 2007)

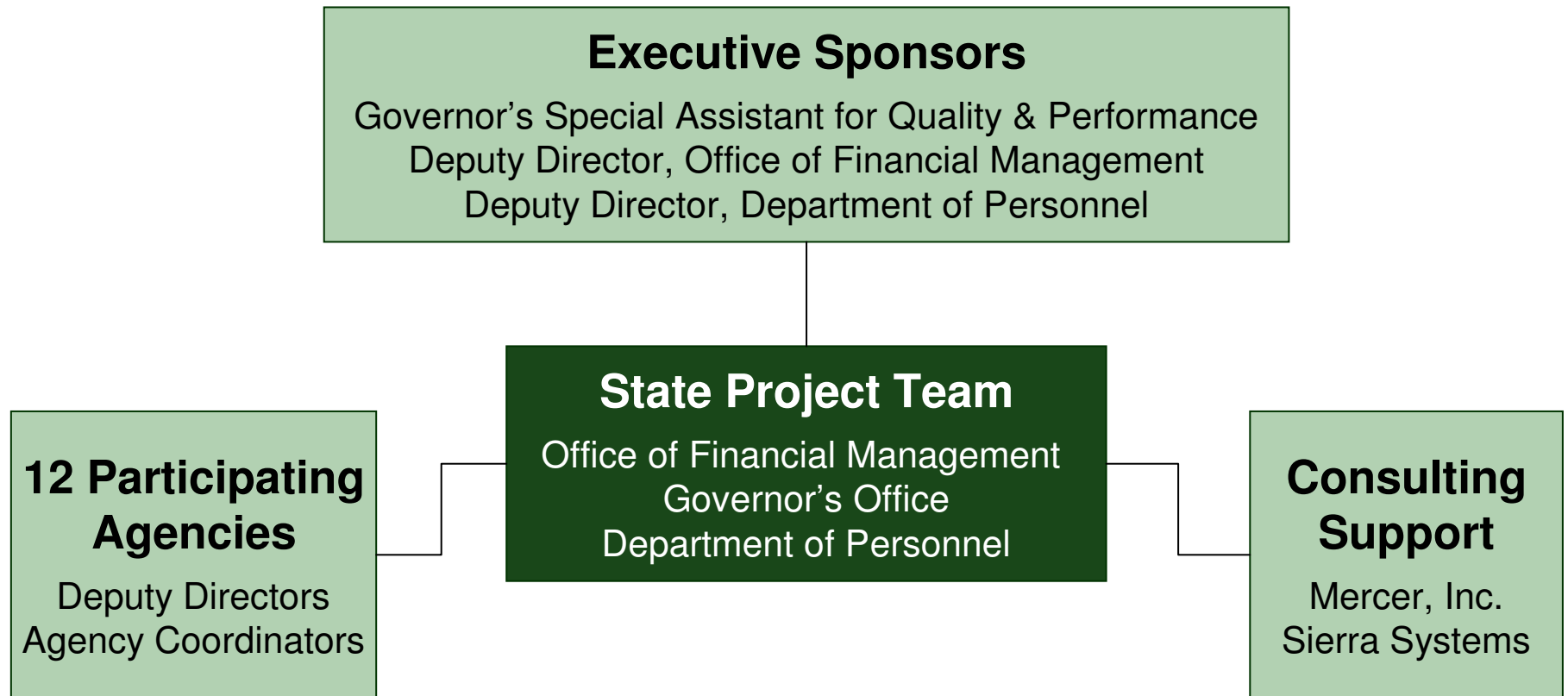


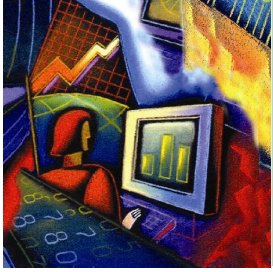
Project Objectives

- Support implementation of new HRMS and strategic planning for future statewide financial systems
- Identify processes that are overly complex, cumbersome, or duplicative
- Compare state human resource and finance processes with benchmarks and best practices
- Prioritize opportunities for process improvement
- Conduct a follow-up measurement in 2006-2007 to quantify process improvements made
- Provide a credible model for benchmarking agency performance, based on best benchmarking practices



Project Team





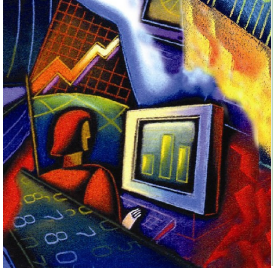
Agency Participation

Participating agencies included:

- Attorney General's Office
- Dept. of Information Services
- Dept. of Corrections
- Dept. of Licensing
- Dept. of Personnel
- Dept. of Revenue
- Employment Security
- General Administration
- Labor and Industries
- Office of Financial Management
- Dept. of Printing
- Washington State Patrol

Agency Coordinator role:

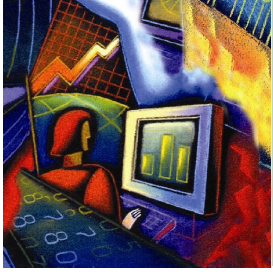
- Customization of survey instrument
- Communications conduit
- Coordination of data gathering



Consulting Support

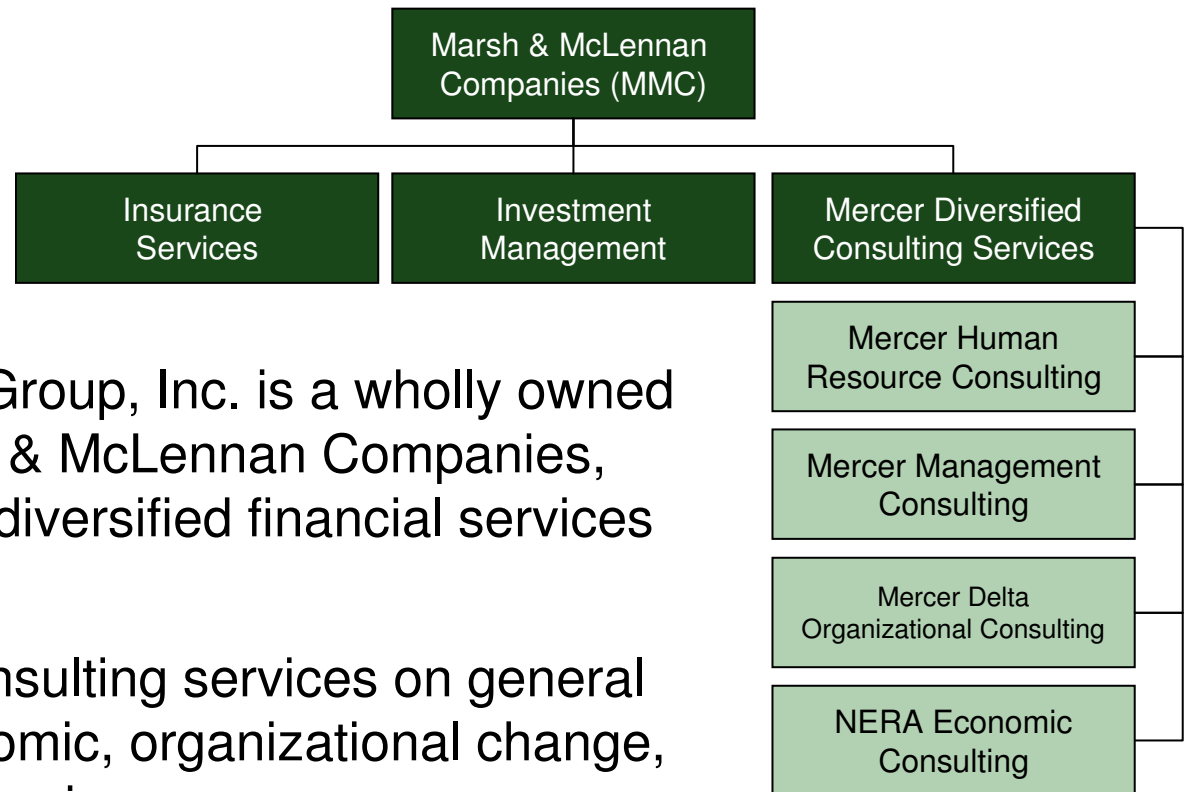
Sierra Systems

- Founded in 1966, Sierra Systems employs 1,000 people in 14 locations in North America
- Full-service information technology firm providing:
 - Strategy: Management and technology consulting
 - Delivery: Systems integration and development
 - Support: Technology management
- Large Enterprise Solutions Practice providing:
 - HRMS and FMS selection and implementation services
 - Business process reengineering
 - Functional consulting
- Washington State presence for 20 years, and an Olympia-based business unit focused on providing consulting services to the state

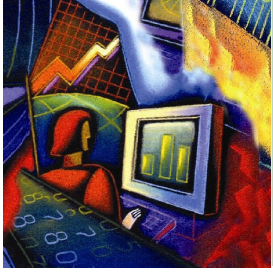


Consulting Support

Mercer, Inc.



- Mercer Consulting Group, Inc. is a wholly owned subsidiary of Marsh & McLennan Companies, Inc., a Fortune 500 diversified financial services firm
- Mercer provides consulting services on general management, economic, organizational change, and Human Resource issues



Measurement Methods

- **Operations Scanner®** – Mercer's web-based measurement tool to quantify resources dedicated to each HR and finance process
 - Baseline measure identifies opportunities for improvement
 - Comparison of baseline and follow-up measures quantifies efficiency gains
- **Benchmarking and best practice research** – Comparisons to other organizations and industry standards
- **Interviews of process/technology owners** – Identification/validation of improvement opportunities through process efficiency, automation, and system utilization



Measurement Methods

Operations Scanner

- Web-based costing tool that:
 - Provides comprehensive, quantitative diagnostics
 - Establishes a baseline and identifies opportunities for improvement
- Agency staff participating in HR and finance processes complete the survey to report time spent on a comprehensive list of activities
- Requires 45-60 minutes to complete

MERCER Human Resource Consulting **Kremer, Todd**

Instructions
Questionnaire
Staffing
Organization Design
Training
Employee/Labor
Compensation
Benefits
HRIS/HR Applications
Time & Attendance
Health, Safety & Environment
HR Department Details
FAQ
Contact Us
Logout

Questionnaire SAVE NEXT

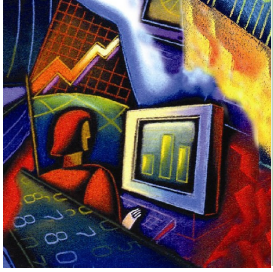
Staffing

Activity
<input type="checkbox"/> Recruiting Program Strategy & Design - Developing strategies for recruitment of internal and/or external candidates. Activities may include developing web-based search strategies or other sourcing strategies.
<input type="checkbox"/> Workforce Planning/Talent Management Consulting - Consulting with management to diagnose and analyze current and future talent needs. Activities may include development of workforce planning tools, forecasts, attraction and retention strategies, etc.
Position Control -

MERCER Human Resource Consulting **Kremer, Todd**

Instructions
Questionnaire
Staffing
Organization Design
Training
Employee/Labor
Compensation
Benefits
HRIS/HR Applications
Time & Attendance
Health, Safety & Environment
HR Department Details
FAQ
Contact Us
Logout

Activity	Percentage of Time	Effectiveness Rating	
Staffing			
<input type="checkbox"/> Position Control - Auditing of positions or requisitions to ensure that staffing plans are compliant with budget or organization standards. This may involve reconciliation of FTE allocations, headcount, titles, position grades/levels, etc.	<input type="text"/>	<input type="text"/>	DELETE
HR Department Management			
HR Department Meetings - Attending internal HR staff and department meetings.	<input type="text"/>	<input type="text"/>	DELETE
Department Management Data			



Measurement Methods

Operations Scanner

Human Resources Functions

- Staffing
- Organization Development (OD)
- Training and Development
- Employee/Labor Relations
- Compensation
- Benefits
- HRIS/HR Applications
- Time & Attendance/ Payroll
- Health, Safety & Security
- HR Department Management

Finance Functions

- General Accounting
- Receivables Management
- Payables Management
- Financial Reporting
- Strategic Planning & Forecasting
- Audit
- Operating Budgeting
- Capital Budgeting
- Finance Department Management
- Financial Systems

Roles

Strategic
Partnering

Designing
Programs

Delivering
Services

Transacting/
Recordkeeping

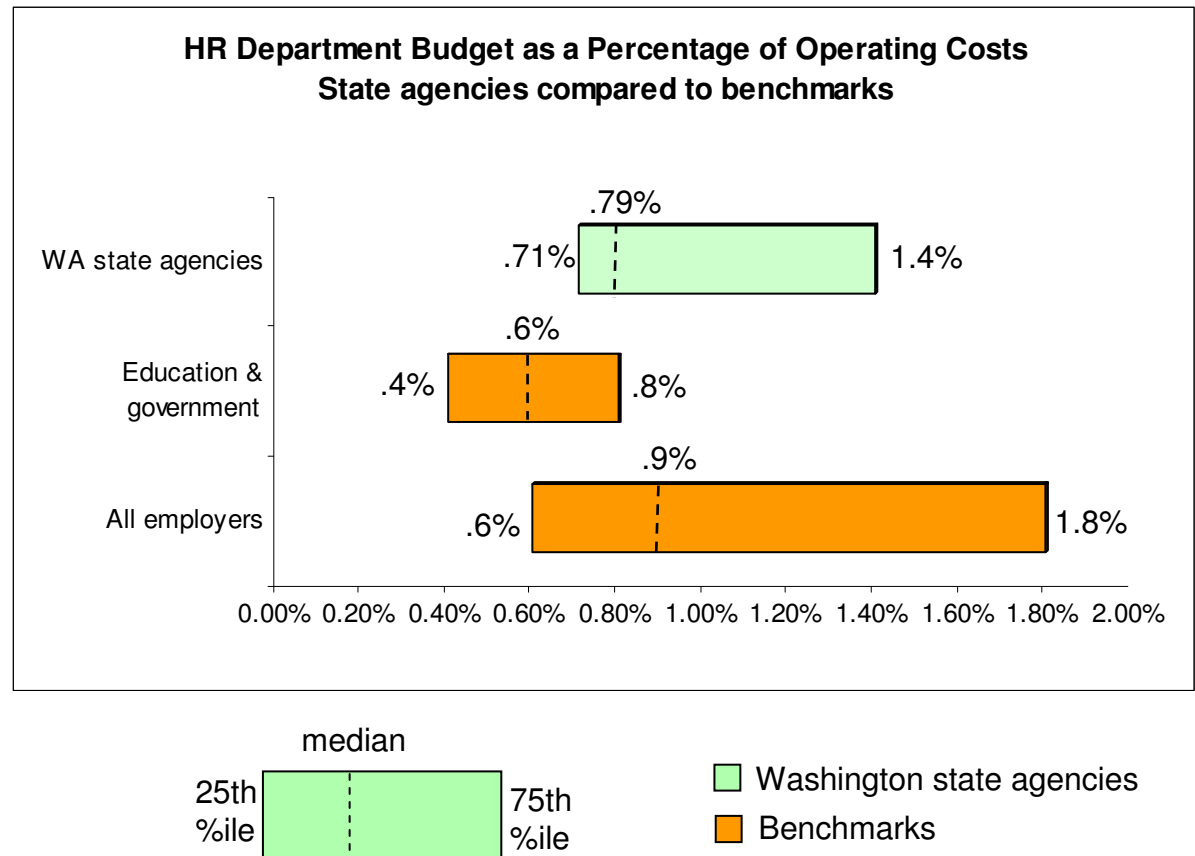
Auditing/
Controlling

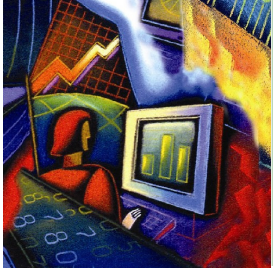


Findings

HR Operating Expense -- Comparison to Benchmarks

- The median HR budget as a percent of operating costs for participating agencies (.79%) is close to the 75th percentile for the education & government sector, but is less than the median for all employers

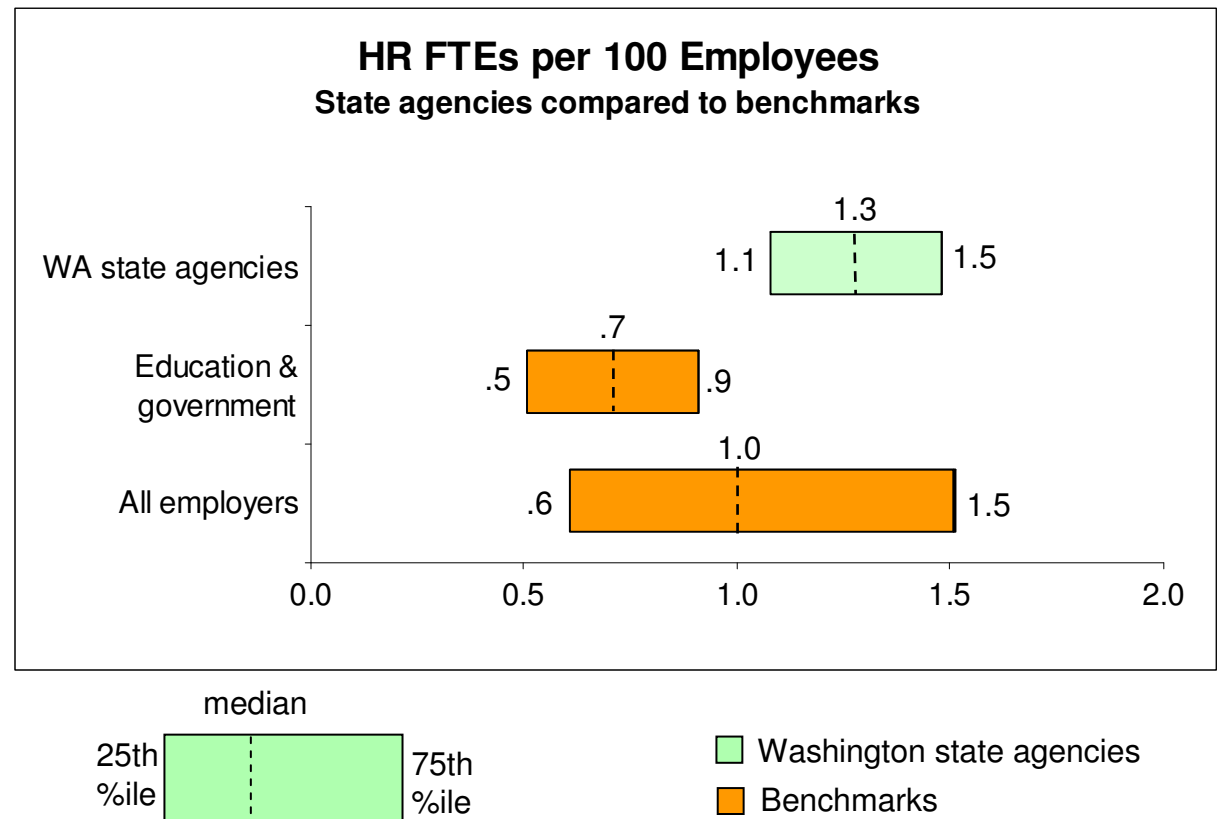




Findings

HR Staffing Levels -- Comparison to Benchmarks

- HR staffing for participating agencies is comparable to the upper 2 quartiles of HR staffing across all industries, and is significantly greater than the education & government sector



Source: HR Department Benchmarks and Analysis
2003, BNA.

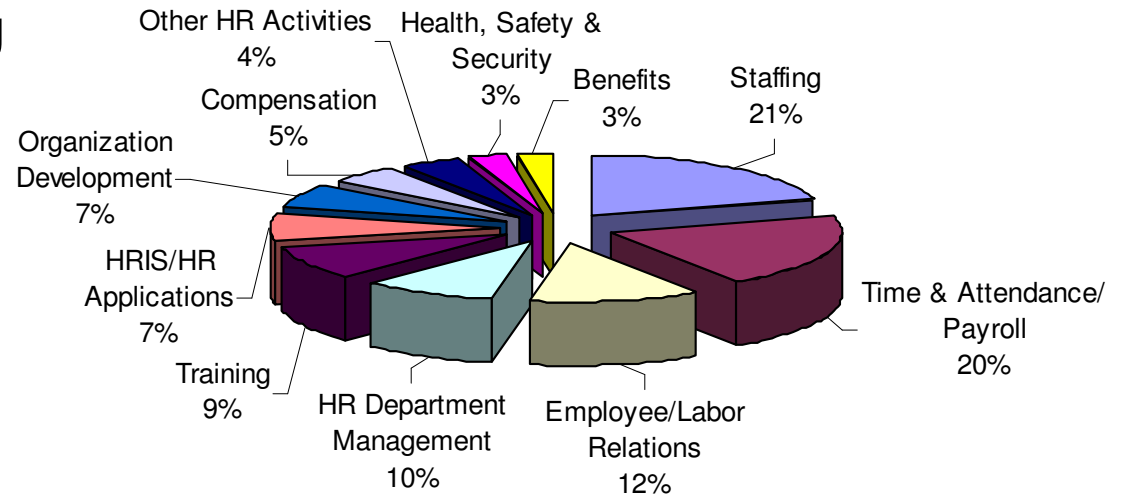


Findings

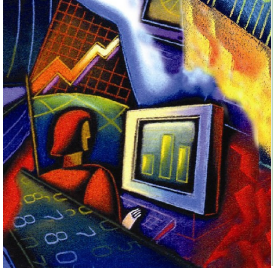
HR Resource Allocation by Function

- Among the participating agencies, the annual labor investment for HR-related functions is over \$39 million
- Over 40% of HR staff time and 36% of HR labor cost is allocated to staffing and time & attendance/payroll

% of Time Spent



Function	Time (Hrs)	Time (%)	Cost (\$)	Cost (%)	# FTE
Staffing	276,376	21%	\$7,741,261	20%	132.4
Time & Attendance/Payroll	275,006	20%	\$6,255,086	16%	131.7
Employee/Labor Relations	159,684	12%	\$5,118,743	13%	76.5
HR Department Management	130,816	10%	\$4,290,818	11%	62.7
Training	121,856	9%	\$3,646,522	9%	58.4
HRIS/HR Applications	98,400	7%	\$3,313,443	8%	47.1
Organization Development (OD)	90,407	7%	\$3,031,911	8%	43.3
Compensation	65,113	5%	\$2,061,736	5%	31.2
Other HR Activities	56,352	4%	\$1,690,791	4%	27.0
Health, Safety & Security	37,358	3%	\$1,102,170	3%	17.9
Benefits	35,328	3%	\$860,968	2%	16.9
Grand Total	1,346,697	100%	\$39,113,449	100%	645.0



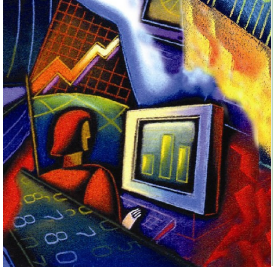
Findings

HR Resource Allocation by Role with Comparison to Benchmarks

- Best in class HR functions report allocating over 40% of time to designing HR programs and strategic business partnering

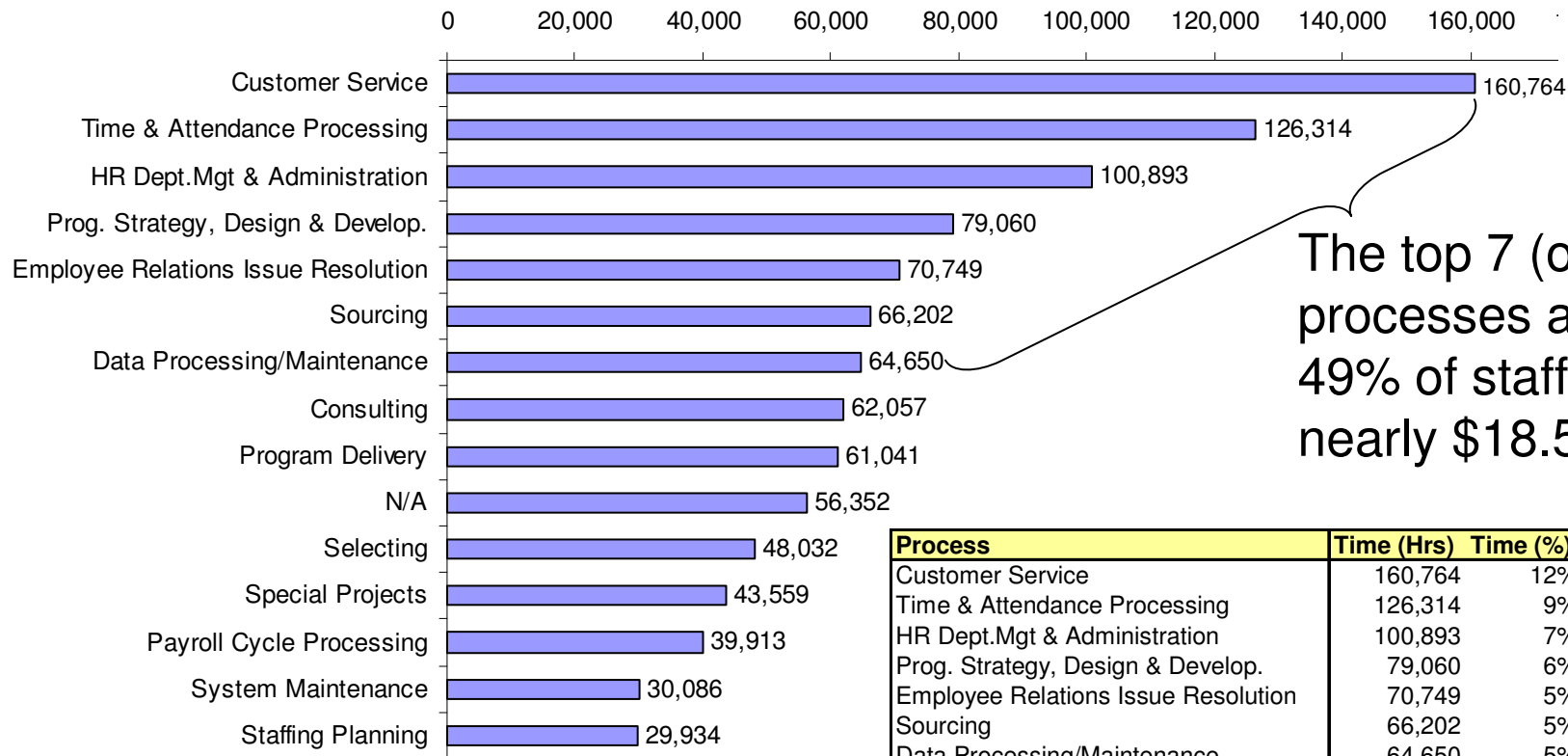
HR Role	Best in Class	Trend	State of WA
Transacting/ Recordkeeping	14.9%	↓	30.0%
Auditing/ Controlling	11.4%	↔	8.9%
Delivering Services	31.3%	↓	43.6%
Designing HR Programs	19.3%	↔	9.6%
Strategic Partnering	23.3%	↑	7.9%

Source: 2002 Center for Effective Organizations, University of Southern California



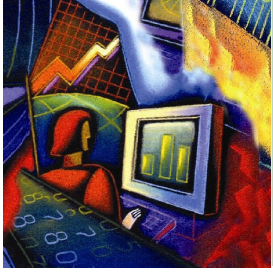
Findings

HR Resource Allocation by Process



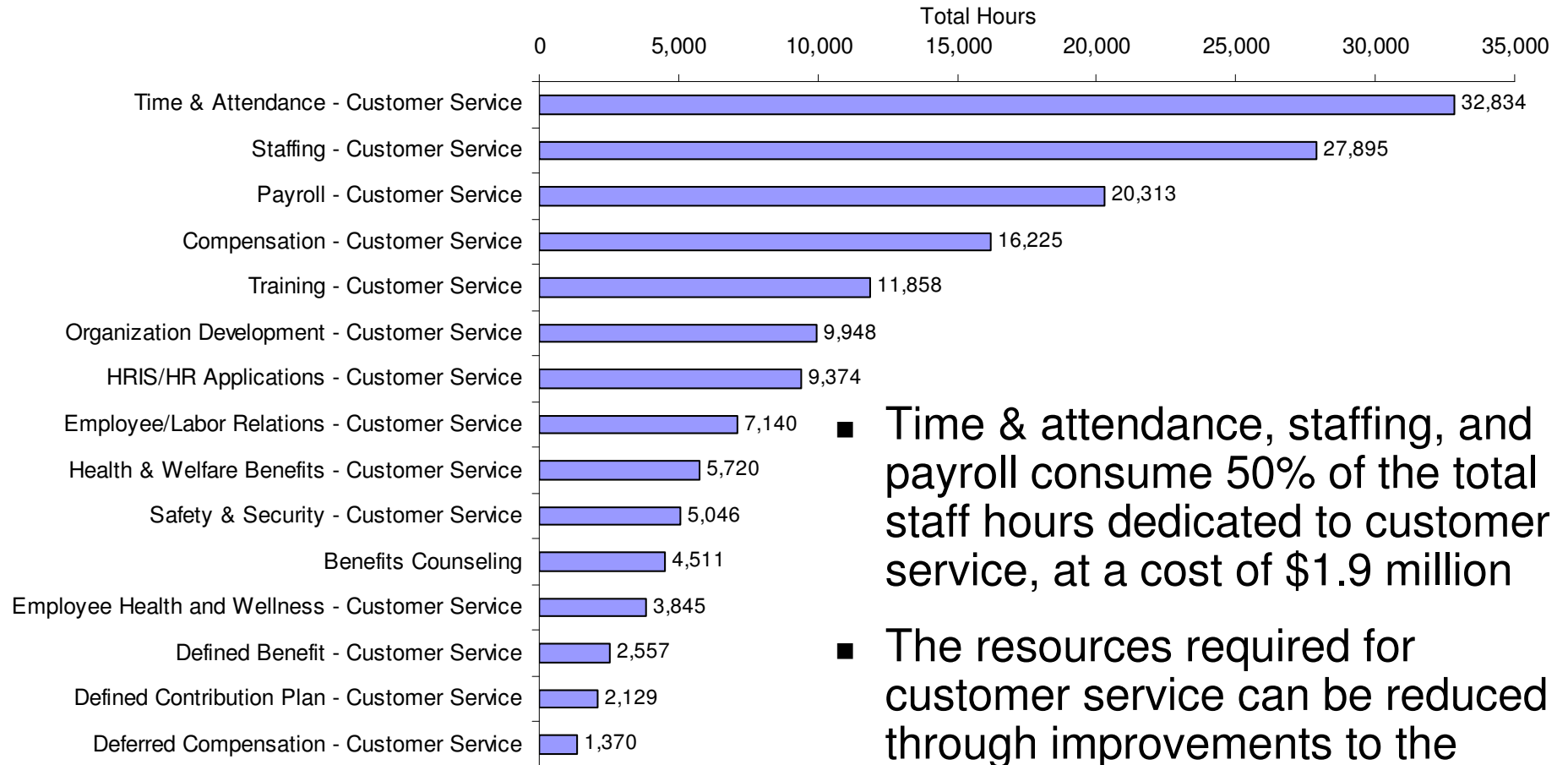
The top 7 (of 38) processes account for 49% of staff time and nearly \$18.5 million

Process	Time (Hrs)	Time (%)	Cost (\$)	Cost (%)	# FTE
Customer Service	160,764	12%	\$4,045,793	10%	77.0
Time & Attendance Processing	126,314	9%	\$2,748,201	7%	60.5
HR Dept.Mgt & Administration	100,893	7%	\$3,251,694	8%	48.3
Prog. Strategy, Design & Develop.	79,060	6%	\$2,781,043	7%	37.9
Employee Relations Issue Resolution	70,749	5%	\$2,376,729	6%	33.9
Sourcing	66,202	5%	\$1,742,743	4%	31.7
Data Processing/Maintenance	64,650	5%	\$1,528,292	4%	31.0
Consulting	62,057	5%	\$2,156,956	6%	29.7
Program Delivery	61,041	5%	\$1,876,146	5%	29.2
N/A	56,352	4%	\$1,690,791	4%	27.0
Selecting	48,032	4%	\$1,464,344	4%	23.0
Special Projects	43,559	3%	\$1,363,299	3%	20.9
Payroll Cycle Processing	39,913	3%	\$941,242	2%	19.1
System Maintenance	30,086	2%	\$1,007,095	3%	14.4
Staffing Planning	29,934	2%	\$865,054	2%	14.3

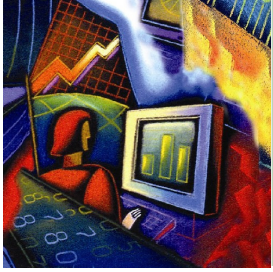


Findings

A Closer Look at Customer Service

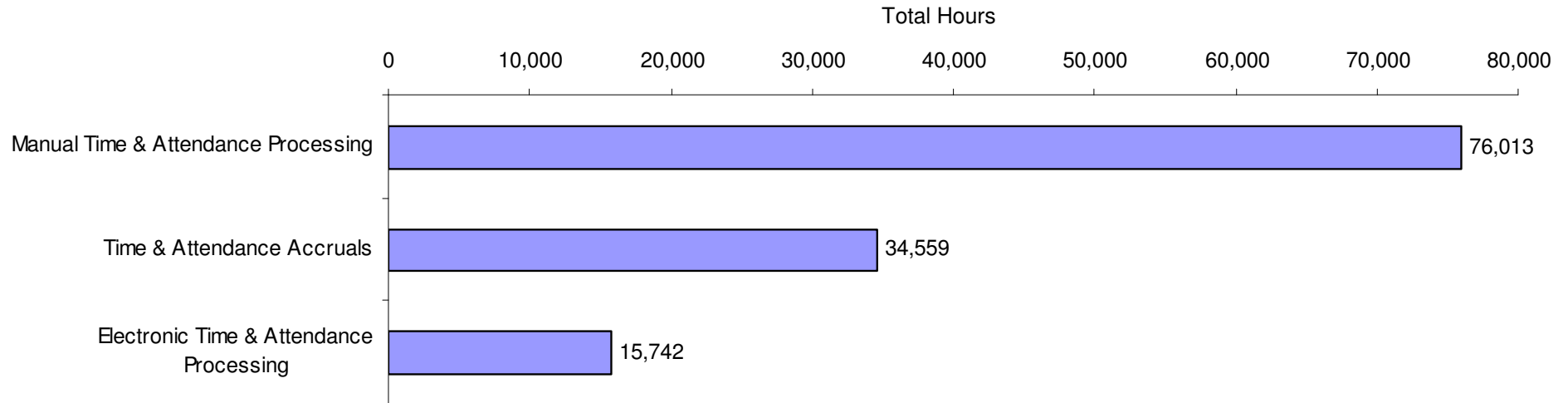


- Time & attendance, staffing, and payroll consume 50% of the total staff hours dedicated to customer service, at a cost of \$1.9 million
- The resources required for customer service can be reduced through improvements to the underlying processes

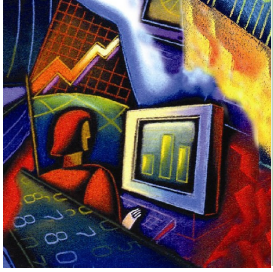


Findings

A Closer Look at Time & Attendance Processing



- Manual time & attendance processing and the monitoring and adjustment of accruals consume over 110,000 hours of staff time annually, at a cost of \$2.4 million
- Both of these areas present potential opportunities for process improvement



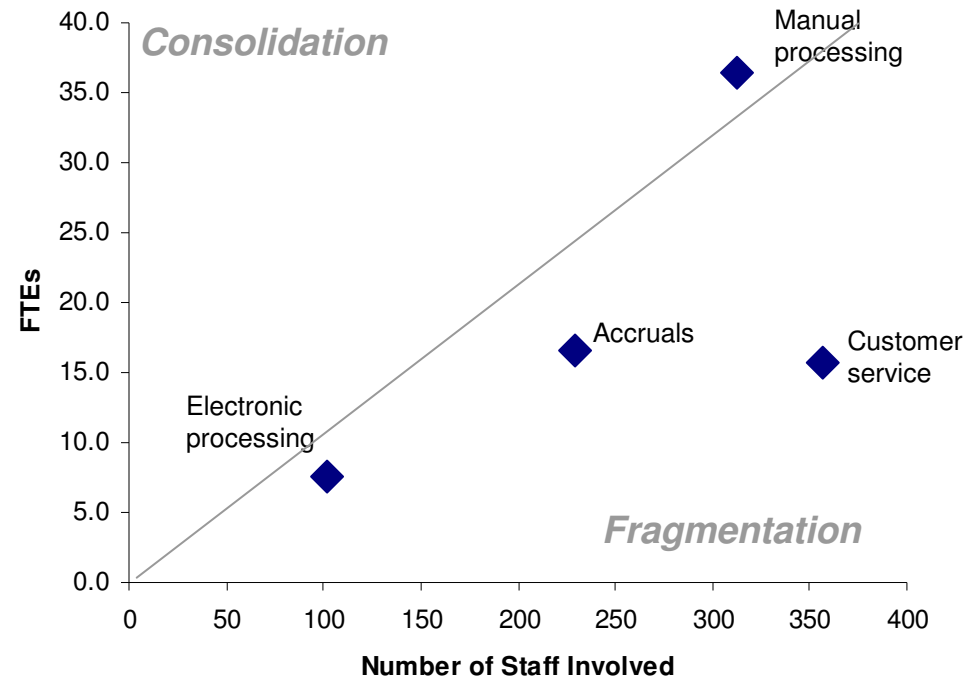
Findings

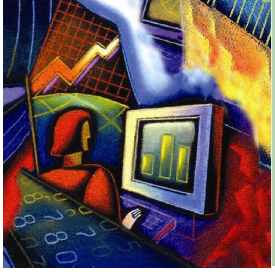
Time & Attendance Process Fragmentation and Overlap

- Time & attendance processing is very fragmented overall, with 70.2 FTEs of work distributed over as many as 357 individuals
- Customer service is the most fragmented activity, with 15.7 FTEs of activity performed by 357 individuals (30 per agency, on average) with 52 different job classification titles

Activity Description	Time (Hrs)	Cost (\$)	Staff	# FTE
Manual Time & Attendance Processing	76,014	\$1,682,652	313	36.4
Time & Attendance Accruals	34,559	\$719,499	229	16.6
Electronic Time & Attendance Processing	15,742	\$346,049	102	7.5
Time & Attendance - Customer Service	32,834	\$714,358	357	15.7
	159,148	\$3,462,559		76.2

Relative Fragmentation of Time & Attendance Activities





Findings

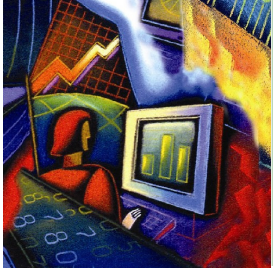
Time & Attendance Process Issues and Comparisons to Benchmarks

Current process issues

- Employee hours are recorded and entered manually, two or more times in many agencies
- Timesheets are frequently late or incomplete, which requires tracking down missing information
- Leave balances on employee warrants are more than one month behind, and in most agencies employees do not have access to accurate balances
- Leave requests are sometimes submitted late, causing inaccurate warrants and/or accruals

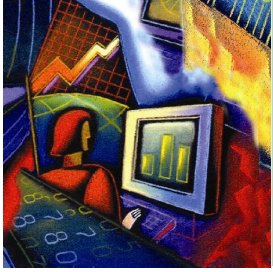
Comparison to benchmarks

- The agencies' median cost per payment to record time is \$2.83, compared to an APA benchmark median of \$.18
- One agency, which developed an automated timekeeping system, reduced timekeeping cost to \$.21 per payment, approaching the benchmark



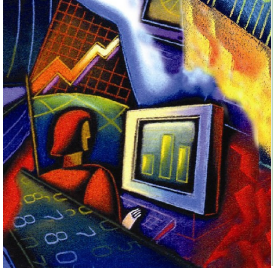
How the Findings are Being Used

- Recommendations from the HR baseline study included:
 - Automate time & attendance reporting
 - Consolidate recruiting registers to streamline staffing processes
 - Implement employee and manager self service to reduce high customer service costs
 - Consolidate HR responsibilities at the appropriate job level
- Many of the findings validated the need for a new HRMS, and are being used to sequence the implementation of various HRMS modules
- The Finance study findings are not yet available, but will be used to support strategic planning for statewide financial systems
- The follow-up measurement reports will quantify progress made in reducing costs and improving productivity, efficiency and process effectiveness relative to internal and external benchmarks



Critical Success Factors

- Executive sponsorship
 - Letter announcing project from project executive sponsors
 - E-mail explaining project and setting expectations from deputy director of each participating agency
- Project Management
 - Hire baseline assessment and benchmarking experts
 - Importance of Agency Coordinators
 - Tracking and reporting on Operations Scanner activity
- Communications
 - Executive briefings prior to kickoff meeting
 - Presentation of interim and final results



Questions?